reason
FREE MINDS AND FREE MARKETS

REASON ROUNDUP

Biden Wants To Spy on American Bank Accounts

Plus: Trump administration spied on CNN reporter, the right's wrong turn on economic liberty, and more...

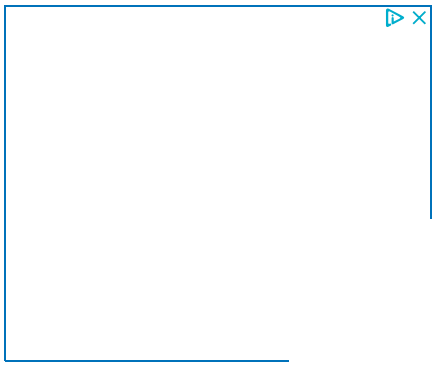
ELIZABETH NOLAN BROWN | 5.21.2021 9:33 AM

(imageBROKER/Andy Dean/Newscom)

Biden tax plan would cull financial data on masses of law-abiding, tax-compliant Americans. In the name of catching tax dodgers, the Biden administration is seeking serious snooping rights to oversee all American bank accounts and payment apps. "Instead of promising a chicken in every pot, Biden's plan promises an auditor at every kitchen table," commented Sen. Chuck Grassley (R–Iowa).

Under President Joe Biden's proposal, 87,000 new IRS employees would be hired and everyone could expect more scrutiny of the flow of money to and from their financial accounts.

As it stands now, the government gets alerted to most income when the payer reports it to the IRS. If someone comes into money and the payer doesn't report it to the IRS, the person paid is supposed to report this income—no matter how small—but it's difficult for the IRS to know if they do not do so. Estimates suggest that "opaque" income sources have a misreporting rate of 55 percent.



Biden would change this, putting thousands of new IRS agents in charge of monitoring how much money goes into and out of individual bank accounts and payment service providers (like Paypal and Venmo) each year and investigating people whose cash flow doesn't match what they report as income.

It's how the administration proposes paying for the massive new spending measures in Biden's American Families Plan. The schemes "would raise $700 billion in additional tax revenue over the next decade," according to the American Families Plan Tax Compliance Agenda.

The administration talks about this increased IRS scrutiny as if it would only affect extremely wealthy tax scofflaws. But the extremely wealthy know they get extra IRS scrutiny and already have all sorts of tricks for shielding income from taxes and from regulators' view.

Rather, it's the folks who sometimes get paid "under the table" for informal gig work—babysitting, house cleaning, a stray manual labor job here and there, sex work, fixing a few cars, peddling homemade baked goods, occasional music gigs, selling things on eBay or Etsy, and so on—who probably aren't likely to have elaborate schemes for hiding a little stray income from their checking accounts and payment apps.

Maybe the IRS wouldn't investigate those who only bring in a relatively small amount of untaxed money—but maybe they would. After all, those 87,000 new employees can't all be catching wily millionaires and billionaires.

The bottom line is that the IRS would have an unprecedented ability to at least target even the tiniest bits of unreported income.

"Account flows don't actually represent income and deductions, so the government wouldn't be able to match these reports with tax returns as it does with W-2s," notes *The Wall Street Journal*. "The report says the information would give the government enough of a window into transactions to target audits more effectively where there are large discrepancies and that tax evaders would change their behavior because they know what information the government has."

Biden's report pledges that "audit rates will not rise relative to recent years for those with less than $400,000 in actual income." Yet even if this pledge is kept, the IRS would still have a vast new mandate to spy on all sorts of U.S. financial accounts.

The plan would ultimately pull in data on masses of law-abiding, tax-compliant Americans, as Tax Policy Center Senior Fellow Steve Rosenthal pointed out in the *Journal*:

> Although administration officials talk about going after wealthy tax dodgers with their expanded staffing, the bank reporting proposal wouldn't do much to them, he said. That is because the highest-earning Americans are employing more sophisticated tax-dodging techniques than just declining to declare all their income.
>
> The bank-reporting rules are designed to get a different group of people altogether—business owners who inflate their deductions and don't report all their income.
>
> "This is a political call by the Biden administration: Let's not tell those guys, small-business guys, what we're doing," Mr. Rosenthal said.

The Biden administration calls this equal-opportunity spying *equity*.

"Third party information reporting is already provided on…wage, pension, and unemployment income," states the American Families Plan Tax Compliance Agenda. "The President's proposal would help make tax administration more equitable by subjecting financial flows…to third-party reporting as well."

"The President's proposal leverages the information that financial institutions already know about the accounts that they house," the report states. "Financial institutions would add information about total account outflows and inflows to existing reporting on bank accounts," giving the IRS "an additional lens into previously unreported income streams."

All banks, brokerages, and other financial institutions would be required to report "gross inflows and outflows on all business and personal accounts from financial institutions, including bank, loan, and investment accounts." The regime "would also cover foreign financial institutions and crypto asset exchanges and custodians," and "reports would also be required from payment services providers so that businesses cannot shift out of traditional financial institutions to other kinds of platforms and avoid making their income visible to the IRS," it says.

The report states that there would be "exceptions for accounts below a low de minimis gross flow threshold," but not what that threshold would be. A footnote to this part simply states that "the proposal preserves significant flexibility for the Secretary and the IRS to design the new reporting requirements in the way that will be most effective for tax compliance efforts."

FREE MINDS

Trump administration spied on CNN reporter. "The Trump administration secretly sought and obtained the 2017 phone and email records of a CNN correspondent," the news agency reports.

> The Justice Department informed CNN Pentagon correspondent Barbara Starr, in a May 13 letter, that prosecutors had obtained her phone and email records covering two months, between June 1, 2017 to July 31, 2017. The letter listed phone numbers for Starr's Pentagon extension, the CNN Pentagon booth phone number and her home and cell phones, as well as Starr's work and personal email accounts.
>
> It is unclear when the investigation was opened, whether it happened under Attorney General Jeff Sessions or Attorney General William Barr, and what the Trump administration was looking for in Starr's records. The Justice Department confirmed the records were sought through the courts last year but provided no further explanation or context.

FREE MARKETS

You can't have political liberty without economic liberty…

WSJ Editorial Page
@WSJopinion

The antimarket right should remember that political liberty proceeds from economic freedom, writes @alexwsalter

Opinion | 'Common Good' Conservatism's Catholic Roots
The antimarket right should remember that political liberty proceeds from economic freedom.
wsj.com

11:05 AM · May 20, 2021

23 2 Share this Tweet

QUICK HITS

Jay Caruso
@JayCaruso

Yesterday was #NationalStreamingDay and here we have a tweet from three years ago that aged very poorly.

Chuck Schumer @SenSchumer
[THREAD] Without #NetNeutrality when you're trying to stream the @Yankees game on your phone and you miss every other pitch, who will be to blame?

3:44 AM · May 21, 2021

117 7 Share this Tweet

- "Washington is rushing to regulate crypto. It's a mess," explains *Protocol*.

- "Calling a classmate a racist slur on Snapchat is offensive," but "it's also protected speech," *Reason*'s Scott Shackford points out, in the face of a teen being arrested for a racist social media post.

ELIZABETH NOLAN BROWN is a senior editor at *Reason*.

REASON ROUNDUP INCOME TAX TAXES IRS BANKING SURVEILLANCE